

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4433-01
Bill No.: HB 1460
Subject: Economic Development, Department of; Employees-Employers; Taxation and Revenue-Income
Type: Original
Date: January 13, 2016

Bill Summary: This proposal establishes the Economic-Education Partnership Act, which allows certain small businesses to retain withholding taxes for employee education.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue*	(\$126,360 up to \$2,060,823)	(\$65,729)	(\$66,303)
Total Estimated Net Effect on General Revenue	(\$60,823 up to \$2,060,823)	(\$65,729)	(\$66,303)

*Oversight assumes an aggregate cap of \$2,000,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume the legislation creates the Economic Education Partnership Act. Employers who provide educational benefits or training wages to qualified individuals may retain the individual's withholding tax up to the amount of benefits or wages provided for five years. The legislation provides rule making authority for the Departments of Economic Development and Revenue to implement the provisions of this section.

The legislation requires the Department to develop a new form to allow employers the ability to separately indicate the amount of "retained" withholdings similar to the MO Quality Jobs Program. Withholding Tax requires one Revenue Processing Technician I to process additional withholding correspondence.

§620.3030(5) requires the employers to repay the withholding if they fail to comply with the terms of the agreement with the Department. In addition, it requires the employer to pay five percent interest on the repaid amounts. This requires programming as this five percent interest may differ from the amount established for delinquencies in §32.065. The Integrated Tax System will incur additional costs of \$65,567 to implement the provisions of this legislation.

Oversight assumes it is unclear how many employers would be able to qualify for this withholding and therefore, DOR should be able to absorb the administration of this program with existing staff. Should there be a significant number of filers to justify another FTE, DOR could request the additional resources through the appropriation process.

Officials at the **Department of Economic Development (DED)** assume §620.3030.3 allows employers that provide education benefits or training wages to retain that trained individual's withholding tax up to the amount of educational benefit or training wage for a period of five years.

§620.3030.4 requires the DED to administer the program.

§620.3030.7 limits the aggregate amount of withholding tax that may be retained by all employers to \$2 million a year.

§620.3030.8 tasks the DED with auditing employers to ensure compliance.

Because this legislation creates a new program and requires significant work by DED, it will

ASSUMPTION (continued)

require the hiring of a new Economic Development Specialist III to administer.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (\$42,288) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would allow qualifying employers to retain 100% of their withholding, for up to five years, equal to the amount of employer-provided education benefits or training wages to a qualified individual. The qualified individual must be pursuing a college degree in health care, engineering, or information technology fields. This retention incentive has an aggregate cap of \$2 million. BAP estimates that Total State Revenue will be reduced by up to \$2 million within the first year.

Officials at the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

Oversight assumes this proposal allows employers who qualify to retain the withholding of employees. The aggregate amount of withholding tax that may be retained by all employers under this section shall not exceed \$2,000,000. It is impossible to determine when the maximum will be met, therefore, Oversight will show an impact of \$0 (no withholding) up to the maximum \$2,000,000 in FY 17 and no impact in FY 18 and FY 19.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - withholding taxes retained by employer who pays educational expenses of an employee*	Up to (\$2,000,000)	\$0	\$0
<u>Costs</u> - DOR - computer programming	(\$65,567)	\$0	\$0
<u>Costs</u> - DED			
Personal Service	(\$35,240)	(\$42,711)	(\$43,138)
Fringe Benefits	(\$18,038)	(\$21,761)	(\$21,877)
Equipment and Expenses	(\$7,545)	(\$1,257)	(\$1,288)
<u>Total Costs</u> - DED	(\$60,823)	(\$65,729)	(\$66,303)
FTE Change	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$126,360 up to \$2,060,823)	(\$65,729)	(\$66,303)
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
*Oversight assumes an aggregate cap of \$2,000,000			
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small business may see a positive impact as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes the Economic Education Partnership Act. If an employer with facilities in Missouri and 50 or fewer employees pays for the tuition or fees for an employee or an intern who

FISCAL DESCRIPTION (continued)

is a resident of this state to pursue an associates, bachelors, masters, or doctorate degree in health care, engineering, or information technology related programs, the employer can retain withholding taxes on its employees for up to five years. The amount of withholding taxes that the employer may retain is limited to the amount the employer spent on the employee's or intern's education. An employer is allowed to retain withholding taxes on its employees if the employer trains an individual for a job in the health care, engineering, or information technology field for no more than one year. The amount of withholding taxes that the employer may retain is limited to the amount the employer paid in wages to the individual while training him or her. The total amount of withholding tax that can be retained by all employers under these provisions cannot exceed \$2 million.

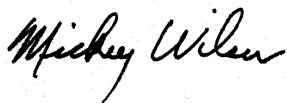
The bill requires an employer to enter into an agreement with the Department of Economic Development that requires the employer to employ the individual upon the completion of his or her degree or training for at least as long as the employer is authorized to retain withholding taxes. The department can audit employers to ensure compliance with the program requirements. An employer who fails to comply with the agreement must cease retaining any withholding tax and repay any amounts of withholding tax retained plus interest at 5% per year.

These provisions will expire seven years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration's Division of Budget and Planning
Joint Committee on Administrative Rules



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Mickey Wilson, CPA
Director
January 13, 2016

Ross Strobe
Assistant Director
January 13, 2016